A/P Pros Step Up to the Plate With Solutions to 'Worst Practices'

Most professionals have heard or read about best practices for accounts payable. Jon Casher, president of RECAP, Inc., looks at the world from a slightly different angle and has identified "worst practices." He shared his views with the attendees at a meeting of the Boston chapter of the IAPP.

Worst Practices—And Some Solutions

At first glance, some of the practices on the list will not seem that bad. However, upon closer reflection you will realize that these seemingly innocuous practices can cause serious inefficiencies and, even worse, duplicate payments that may never be recovered. There are ways to handle these issues, and we've included several suggested by accounts payable professionals in the accounts payable discussion group. Casher's hit parade includes:

- Filing documents by vendor name
- Paying one-time and new vendors without setting up a vendor file
- Paying invoices without invoice numbers
- Purchasing and accounts payable systems that don't talk to each other

Filing Documents

Traditionally, accounts payable departments have filed paid invoices alphabetically. This can be quite time-consuming, while not adding much, if anything, to departmental productivity. It might have been appropriate to file this way before computers were introduced into accounts payable, but this is no longer the case. "Many years ago, we filed alphabetically, and I would never go back to that method because it was much too time consuming and required me to hire a miscellaneous wage type person just to keep up the weekly files," explains one manager.

In this age of decentralization, alpha filings present a whole new set of problems. Still, many companies remain wedded to this old practice. Here's how the issue is handled by some accounts payable pros:

- We file our invoices by pay week in vendor number order and it works great. When we need to pull a particular paid invoice, we access our online query files to obtain the vendor number and pay week and go right to the invoice.

- Our employee travel files (T&E) are still filed alphabetically for obvious reasons, but I would love to find a better way to handle them, as we spend much time filing.

- Our company switched to filing invoices by voucher series. We are able to look at the voucher series and have the AP representative responsible for it make copies when needed. I find that look-ups are quicker, and AP is able to determine at a glance if the invoice is a check request type, a non-PO type, a PO type, warranty repair type, or freight type invoice. Also, we can determine at a glance which plant location vouchered the vendor invoice.

- We file our invoices monthly by journal entry number. Several years ago we converted to a new A/P system and at that time took the opportunity to revise some of our processes, one of which was changing from alpha filing to numeric. This has increased our efficiency tremendously.

- We previously had a filing clerk spending a great deal of time sorting/filing the paid documents. In my opinion, using the numeric system is only helpful if you're A/P software has adequate "inquiry" abilities. Finding a paid document can be difficult if the computer is "down" and you have to rely on your hard copy reports. But, I do feel that numeric is the way to go, and in the long run it will save time!

One-Time Vendors

Accounts payable managers are often caught in a bind when trying to pay new vendors. Bowing to pressure to get the invoice processed quickly, many "force" it through their systems just to get the bill paid on time.

Thus, the items are processed before a Master Vendor file is set up. The result is, quite frequently, a duplicate payment. The same happens when a one-time vendor crosses the accounts payable manager's desk. Many think, "Why bother setting up a vendor file if it will never be used again?" The result, once again, is often a duplicate payment, or worse. Others, concerned about the size of the Master Vendor file, prefer not to add entries that are unlikely to be used ever again. Of course, the best practices of (1) never issuing a check until you set up the supplier in the Master Vendor file and (2) purging the Master Vendor File on a regular basis solve a good part of the problem. But these best practices are not used in all companies for a variety of reasons often beyond the control of the accounts payable manager. Here's what accounts payable managers suggest:

Our system allows one-time vendors to be put through as a temporary "B" voucher. We can enter a specific code that indicates to the computer that the vendor is a one-time-only payment. These vendors are then assigned numbers by our system in sequence each day, such as "B0001," "B0002," etc. The data is compiled alphabetically in our vendor history ACCESS file, not in our Vendor Master File.

The only way is to purge your file more often. We purge our vendors after 36 months of no activity.

Invoices Without Invoice Numbers

Making the likelihood of duplicate payments and fraud even greater is the manner in which invoices without invoice numbers are handled. Most companies use a dummied-up number to force such payments through their systems. Procedures that worked in the pre-computer age are no longer appropriate. Casher identifies as a worst practice using the date in the place of an invoice number. If you use some code involving the date, he suggests using the letters A through L for the month.

This is an issue at most companies when it comes to making payments to their own employees. The obvious solution of using the employee's social security number gets a huge black mark, as it could open the company up to legal action should some one use an employee's number in an unauthorized and illegal manner. Accounts payable managers have been confronted with this issue almost from the beginning of time. Here's how some cope with this problem:

- For all invoices that do not have a number, we request that the purchaser submit a preprinted check request form. This reduces the possibility of duplicate payments and makes it easier to track an invoice'' status.

- We use the invoice date. If we get more than one invoice with the same date, we research for a possible duplicate, then if OK, add a letter to the end of the date "A, B, C..." The two purposes of the invoice number are to help the vendor apply the check and to prevent duplicate payments. I admit that using the invoice date is not great, but better for both of these tasks than something not meaningful to the vendor.

- We are a hotel chain with 260 operating units. We currently are using a combination of invoice date and our unit number if there is not an invoice number. For recurring payables, we sue a combo of a pre-assigned classification coding which represents each type of recurring expense. (Ex. Utilities = 20 mortgages = 50), and again, our unit number.

- We have a seven-character vendor format. The first four characters are the first four letters of the employee's last name. If the employee's last name is less than for letters, we get the remaining letters from the first name. The next two characters are a 2-digit number. We start with 02, then move to 04, 06, etc. if necessary, e.g., SMIT02 for Bob Smith and SMIT04 for Jane Smith. The last character is the letter "E." For regular vendors, the format for the first five characters is the same; however, the last three characters are a three-digit number, rather than a two-digit number + "E" if we want a report of only an employee.

- In our company, we give each employee an employee number through our payroll department. To this number our payables department adds a prefix of 90. This way the employee numbers can be segregated from the regular A/P vendors, but it still allows the employees easy access to their files.

Noncommunicative Systems

As the last worst practice, Casher fingered purchasing and accounts payable systems that don't talk to each other. This wastes large amounts of time for both departments as they are forced to do much of the work manually that could be done electronically. This is one practice that is outside the purveyance of the accounts payable manager. However, if the company is investigating a new accounting system, the manager at such a company could point out the importance of having the two systems work together.

Should you find that your company happens to be following one of Casher's Worst Practices, evaluate the process and make recommendations to change it. By pointing out the dangers of the practice, you may be able to open management's eyes while simultaneously getting them to look at you in a new light.